

California Public Utilities Commission

Energy Division

Audit Report

Southern California Edison Company

Interruptible Load Management Program
Memorandum Account
For Years 2001, 2002, and 2003

Prepared by
Fred E. Tamse
May 20, 2005

Table of Contents

<u>Chapter</u>	<u>Page</u>
I. Executive Summary	
A. Commission ordered Energy Division to perform an audit of the Utilities' Interruptible Load Management Program Memorandum Account.....	1
B. Summary of Audit Conclusions.....	1
C. Recommendations.....	2
II. Background	
Commission Decisions ordered Utilities to establish an Interruptible Load Management Memorandum Account and ordered Energy Division to review reasonableness of incremental costs recorded in the Memorandum Account.....	4
III. Overview and Program Descriptions	
A) SCE has maintained 7 ILMP for 2001-2003:	
1) Base Interruptible Program (BIP).....	5
2) Air Conditioning Cycling Program (ACCP-E).....	5
3) Optional Binding Mandatory Curtailment (OBMC).....	6
4) Scheduled Load Reduction Program (SLRP).....	6
5) Voluntary Demand Reduction Program (VDRP).....	7
6) Demand Bidding Program (DBP).....	7
7) Rotating Outages (RO).....	8
B) ILPMA Interest Costs.....	8
C) Revenues from Penalties.....	8
IV. Summary of Audit Results.....	10
V. Audit Methodology	
A) Audit Scope.....	15
B) Audit Program & Procedures.....	15
C) Audit Sampling.....	16
Appendix A – Acronyms	
Appendix B – Interest for 2001, 2002 & 2003	
Appendix C – Audit Sampling	
Appendix D – Total Incremental Costs, Non Labor Incremental Costs, and ILPMA Audit Adjustments	
Appendix E – ILPMA Audit Program and Procedures	

I. Executive Summary

A. The California Public Utilities Commission's (Commission) Energy Division conducted an audit of Southern California Edison Company's Interruptible Load Management Program Memorandum Account as ordered by Decision D.03-08-028 dated August 21, 2003.

The Commission ordered the Energy Division per D.03-08-028, to perform an audit of Southern California Edison Company's (SCE) Interruptible Load Management Program Memorandum Account (ILPMA) for calendar years 2001. Energy Division extended the scope of the audit to include years 2002 and 2003 as approved by the Commission's Executive Director to allow SCE's recovery of incremental costs for Years 2001 through 2003. The objective of the audit is to assure reasonableness and accuracy of Interruptible Load Management Program (ILMP) incremental costs and revenues recorded in the ILPMA for the years 2001, 2002, and 2003, above the current rates authorized by the Commission, and reduced by revenues from penalties or other funds received.

B. SCE properly maintained an Interruptible Load Management Program Memorandum Account as ordered by Commission Decision D.01-04-006 on April 3, 2001 and affirmed by D.07-01-029 on July 12, 2001.

SCE's incremental costs in the memorandum account were determined to be reasonable and properly accounted for, with satisfactory support and documentation.¹ SCE maintained separate accounting for each ILMP identifying costs and revenues associated with each program.

Judgmental sampling was applied in testing SCE's incremental costs for calendar years 2001, 2002, and 2003 (through May 23, 2003²). The Energy Division auditor sampled 70% of SCE's submitted incremental costs of \$8,760,747 and the sampled incremental costs were determined to be properly recorded and supported. The review of SCE's records showed minor audit adjustments.

The Energy Division auditor sampled selected months for each ILMP for years 2001-2003 using the detailed reports submitted by SCE. For each month sampled, documents supporting all entries were requested and SCE provided the documents for review. All documents examined were found reasonable³ and accurate. Appendix C

¹ See Page 14, Section B

² SCE's 2004 AEAP requested recovery only of incremental program costs incurred through May 23, 2003. SCE's 2003 General Rate Case approved on July 2004 and became effective as of May 23, 2003, approved the costs associated with ILMP as part of normal program operations. There were no longer any incremental ILMP costs after May 23, 2003 [SCE's response to ED DR#5, Question #1]. Note that any references to 2003 incremental costs stated in this report are through May 23, 2003.

³ See Page 14, Section B

contains the schedules developed during the audit to show which months were reviewed and examined.

SCE maintained adequate accounting internal control for ILMP incremental costs. SCE's accounting department developed a system that uniquely identified the ILMP incremental costs. ILPMA expenditures are identified by Expense category, FERC trial balance account and Expense project numbers. Several reconciliations and reviews are done by SCE's Project Manager within the year to assure that discrepancies are identified and corrected immediately.

SCE maintained proper records of customers who participated in SCE's ILMP. Contracts signed between SCE and ILMP participants were sampled, reviewed and determined to be properly kept and in accordance with the Commission's order. SCE applied incentive payments to customers via billing credits. SCE recorded the payments as incremental costs. SCE developed and installed a sophisticated system to notify customers for potential outage via contact-phone, pager, email, cell phones, and fax machines. SCE's PC-based application called Outage Notification Communications (ONC) interfaces with an outside vendor who makes the actual notifications.

SCE's computation of interest on ILPMA balances were verified and proved, and were determined to be in accordance with SCE's Preliminary Statements relating to each program of the ILMP. SCE claimed total interest of \$189,238 for 2001, 2002, and 2003. The total interest computed through the audit was \$184,250. The \$4,988 difference was due to audit items and reclassifications that SCE made during the course of the audit. (See Exhibit I-1 below)

**Exhibit I-1: There is a \$5,000 difference between total interest costs as claimed by SCE from 2001-2003, compared to what was calculated through the audit.
(In Dollars)**

	2001	2002	2003	Total
Per SCE	21,059	74,322	93,857	189,238
Per Audit	18,757	71,767	93,726	184,250
Difference	2,302	2,555	131	4,988

Note 1 – SCE's interest amounts were from their AEAP filings for 2002, 2003, and 2004. Year 2003 amounts (shown in 2004 AEAP) were through May 2003.

C. The Commission should allow SCE recovery of its ILMP incremental costs totaling \$8,750,137 for years 2001, 2002, and 2003 as recorded in SCE's ILPMA, but reduced by audit adjustments.

Based on our review of SCE's ILPMA for calendar years 2001, 2002, and 2003, SCE's requests for recovery of incremental costs as filed in SCE's Annual Earnings Assessment Proceeding (AEAP) for years 2002, 2003, and 2004 were appropriate and reasonable.⁴ Incremental program costs from years 2001 to May 2003 were sampled and no material misstatements were identified. However, minor audit adjustments amounting to \$10,610 were determined during the course of the audit. These adjustments reduced SCE's total claim to \$8,750,137. (See Exhibit I-2 below and Appendix D – Page 3 of 7)

**Exhibit I-2: SCE should be allowed to recover \$8,750,137
ILMP incremental costs incurred in 2001, 2002 and 2003
(In Dollars)**

	2001	2002	2003	Total
Per SCE ¹	2,689,153	4,123,746	1,947,848	8,760,747
Audit Adjustments: Labor costs and allocation problems	0	(5,073)	(549)	(5,622)
Interest adjustments	(2,302)	(2,555)	(131)	(4,988)
Total Audit Adjustments ²	(2,302)	(7,628)	(680)	(10,610)
Recovery Allowed	2,686,851	4,116,118	1,947,168	8,750,137

¹SCE recovery requests were filed in their AEAP for 2002, 2003 and 2004. Year 2003 amounts were through May 2003.

²Refer to Appendix D, Page 3 of 8

SCE's ILMP incremental costs included interest on ILPMA balances at the end of 2001, 2002, and 2003 amounting to \$21,059; \$74,322, and \$93,857, respectively, or a total of \$189,238. Audit findings showed adjustments of \$4,988, thus, reducing SCE's claim to \$184,250 of interest. (See Exhibit I-1 above)

⁴ See Page 14, section B

II. Background

A. Interruptible Load Management Programs (ILMP) are incentives given to customers to reduce their electric consumption during times when energy demand is high.

Customers who are participating to “interrupt” their energy usage will be compensated through fixed payments (i.e. certain amount per month), a discount off their electric rate, or on a pay-per-event basis.

On April 3, 2001, the Commission issued Decision 01-04-006 allowing PG&E, SCE, and SDG&E (Utilities) to establish a memorandum account relating to interruptible load management programs. The memorandum account tracks all costs and revenues above funds authorized in current tariff rates (i.e., incremental costs and revenues) to implement any program, activity, study, or report. D.01-04-006 improved the interruptible tariffs and rotating outage programs of PG&E, SCE and SDG&E. This decision provided short term and mid-term tools to aid California for challenges it faced beginning in 2001 due to the energy crisis.

B. The Commission instructed the utilities to track certain costs and revenues in a memorandum account.

On July 12, 2001, D.01-07-029 affirmed D.01-04-006, instructing the Utilities to track in a memorandum account all costs and revenues above funds authorized in current rates. Utilities may include interest on the balance in each memorandum account.⁵

Utilities were authorized to recover the balances in the memorandum account. However, a reasonableness review of each utility’s memorandum account must first transpire. The Decision stated that “the burden to demonstrate reasonableness for cost recovery will be on each utility. Additionally, the bar to demonstrate reasonableness will be low and full recovery will be authorized of all incremental costs incurred by the utilities for this program, except for expenditures resulting from incompetence, malfeasance, or some other unreasonable behavior.”⁶

Finally, on August 21, 2003, the Commission adopted D.03-08-028, ordering Energy Division to conduct an audit of administrative costs associated with interruptible tariffs and rotating outage programs recorded by Utilities in their memorandum account for Interruptible Load Programs.

⁵ D.01-07-029, page 3

⁶ *Id.*

III. Overview and Program Descriptions

A. SCE maintained six (6) Interruptible Load Management Programs plus the Rotating Outages Program in the ILPMA for the Years 2001 to 2003.

SCE's programs are as follows:

- 1) Base Interruptible Program (BIP)**
- 2) Air Conditioning Cycling Program-Enhanced (ACCP-E)**
- 3) Optional Binding Mandatory Curtailment (OBMC)**
- 4) Scheduled Load Reduction Program (SLRP)**
- 5) Voluntary Demand Reduction Program (VDRP)**
- 6) Demand Bidding Program (DBP)**
- 7) Rotating Outages (RO)**

1) Base Interruptible Program (BIP)

This is a reliability program called upon by the ISO that is available to business customers on a large power rate who can commit to curtail at least 15% of their electric load, with minimum usage of not less than 100 kW. Customers are limited to one 4-hour event per day, 10 events per month, and 120 hours per year. There is an incentive to customers of \$7 per kW-month credit on their bill to curtail energy usage. The bill credit is based on the difference between each month's average peak period demand and a customer selected firm service level (FSL). However, a \$6 per kWh penalty is applied for customers who failed to reduce when asked by the utility company and whose energy consumption is in excess of their FSL.

SCE's incremental costs for BIP for the years 2001-2003 was \$2,885,632. The majority of SCE's BIP costs were for incentive payments to BIP participants amounting to \$2,776,315 or 96.21% of the total BIP incremental costs. Total labor costs were 3.62% of the total BIP incremental costs for years 2001-2003. Energy Division sampled 52% of the total incremental costs, and found that SCE's expenditures were reasonable, properly recorded and documented.⁷ Incentive payments made to participants were reviewed and examined, and were determined to be accurately recorded and computed.

2) Air Conditioning Cycling Program – Enhanced (ACCP-E)

This is a reliability program called upon by the ISO during system-wide energy shortages. SCE is the only utility that maintains this program. SCE has a base ACCP plan whereby a participant is limited to 15 interruptions/events of up to 6 hours

⁷ See Page 14, section B

per event. The Commission per D.01-04-006 ordered SCE to reopen its current program to all residential and commercial customers at all cycling options. That is, SCE shall offer an enhanced program paying twice the existing rates for an unlimited number of events. Events will still be 6 hours per event. SCE gives its customers several summer discount choices to earn credits on their summer electric bills, the maximum savings for enhanced program, which is \$200, for turned off air conditioner during the duration of an event.

SCE's total incremental costs for ACCP-E for the years 2001-2003 is \$3,691,719. Majority of SCE's ACCP-E incremental costs were for non-labor expenditures related to cycling device and installation (provided by outside contractors), device maintenance and testing, and system enhancements amounting to \$1,949,982. Also, SCE paid \$1,640,185 for incentives to customers. Total ACCP-E labor cost is 2.75% of the total ACCP-E incremental costs for years 2001-2003. Energy Division sampled 83.42% of the total ACCP-E incremental costs. Incentive payments made to participants were reviewed and examined. SCE's ACCP-E incremental costs were determined to be reasonable, and were properly recorded and supported.⁸

3) Optional Binding Mandatory Curtailment (OBMC)

As stated in Appendix-A of D.01-04-006, "OBMC program exempts participants (large commercial and industrial customers) from rotating outages if they can reduce the load on their entire circuit by the required amount for the entire duration of every rotating outage. Participants must be able to reduce their circuit load by up to 15%, in increments of 5%. Failure to reduce their load will result in penalties equal to \$6/kWh for all excess energy. Program participants shall pay the cost of any equipment (e.g., communication and metering) required to participate in the program."

SCE's total incremental costs for OBMC for the years 2001-2003 is \$196,875. There were no incentive payments recorded by SCE during 2001-2003. Total OBMC labor cost was 61.82% of the total OBMC incremental costs for years 2001-2003. Energy Division sampled 68.94% of the total OBMC incremental costs. SCE's OBMC incremental costs were determined to be reasonable, and were properly recorded and supported.⁹

4) Scheduled Load Reduction Program (SLRP)

This program is offered to SCE's qualifying bundled service customers with an average monthly demand of 100 kW or greater, and willingness to reduce power usage by at least 15%, but not less than 100 kW. The incentive to customers in curtailing their energy usage is \$0.10/kWh of measured reduction. However, customers' power reductions are effective only during pre-scheduled days and times

⁸ See Page 14, section B

⁹ *Id.*

from June 1 to September 30. Qualified customers are required to remain in the program upon the installation of interval meter for a minimum of one year and comply with at least 5 SLRP events. Failure to follow the requirement is tantamount to removal from the SLRP program, and the customers will be responsible for reimbursing the utility for the cost of the meter installed.

SCE's total incremental costs for SLRP for the years 2001-2003 was \$99,389. Incentive payments to customers of \$16,942 were recorded in 2001 and 2002, and none in 2003. Total SLRP labor cost was 57.11% of the total SLRP incremental costs for years 2001-2003. Energy Division sampled 41.84% of the total SLRP incremental costs. SCE's SLRP incremental costs were determined to be reasonable, and were properly recorded and supported.¹⁰

5) Voluntary Demand Reduction Program (VDRP)

This program was replaced by the Demand Bidding Program in July 2001. However, SCE incurred incremental costs of \$53,917 prior to July 2001. Energy Division sampled 75.88% of the total VDRP incremental costs. SCE's VDRP incremental costs were determined to be reasonable, and were properly recorded and supported.¹¹

6) Demand Bidding Program (DBP)

DBP replaced VDRP per D.01-07-025 dated July 12, 2001. D.02-07-035 approved on July 17, 2002 authorized changes to DBP.

DBP is a bidding program that offers "Day-Ahead" and "Day-Of" price incentives to customers for reducing energy consumption during periods when ISO determines that load relief may be needed. A "Day-Ahead" event may occur any weekday (excluding holidays) between 12:00 pm and 8:00 pm. A "Day-Of" event may occur between 3:00 pm to 8:00 pm. The bidding program offers customers with demands greater than 200 kWh an opportunity to receive incentive payments by voluntarily reducing power without incurring any financial penalty.¹²

SCE's total incremental costs for DBP for the years 2001-2003 was \$164,902. No incentive payments to customers were recorded in 2001- 2003. Total DBP labor cost was 61.67% of the total DBP incremental costs for years 2001-2003. Energy Division sampled 52.44% of the total DBP incremental costs. SCE's DBP incremental costs were determined to be reasonable, and were properly recorded and supported.¹³

¹⁰ *Id.*

¹¹ *Id.*

¹² Source: SCE Preliminary Statement, Schedule DBP

¹³ See Page 14, section B

7) Rotating Outages (RO)

SCE's RO costs pertain to communication-related projects to provide expanded RO information to customers. SCE developed a system that will give advanced notice to SCE's customers when rotating outages are expected to happen. The advance outage notification system provides, through a website, information and maps to customers and public officials regarding the location of anticipated rotating outages. Maintenance of the notification system is handled by an outside vendor who performs the actual notification via a customer's phone, cellular phone, fax machine, e-mail, and/or pager.

Using an internet-based application, SCE developed a system whereby customers can obtain up-to-the-minute updates of the status of rotating outages, and view maps depicting specific areas affected by rotating outages.

SCE's total incremental costs for its RO program for the years 2001-2003 was \$1,479,020. The bulk of RO costs amounting to \$1,344,375 were spent in 2001 and 2002 for mailing, mapping subscription, notification subscription, system enhancements, and system maintenance and development costs. Total RO labor costs were only 2.71% of the total RO incremental costs for years 2001-2003. Energy Division sampled 73.05% of the total RO incremental costs. SCE's RO incremental costs were determined to be reasonable and were properly recorded and supported.¹⁴

B. The Commission allowed the utilities to include ILPMA interest costs

Decision 01-04-006 stated that each respondent utility may include interest on the balance of ILPMA. SCE computed interest related to each ILMP as recorded in the ILPMA for 2001, 2002, and 2003. SCE conformed to the method of computing interest as stated in their ILPMA Preliminary Statement "N #67", which states that "interest shall accrue to the sum of the sub-accounts of the ILPMA by applying the Interest Rate (i.e., the Federal Reserve's 3-month Commercial Paper – annual rate) to the average of the beginning and ending balances." SCE used this methodology in all of its filings with the Commission.¹⁵ Total interest computed is shown on Exhibit IV-1. A complete schedule is included in Appendix B.

C. The utilities are allowed to receive revenues from penalties

SCE received revenues from penalties for \$13,100 on just one occasion from BIP participants- in June 2002. Penalties were imposed on SCE participants who failed to reduce load to their Firm Service Levels (FSL) when requested under the terms of SCE and the Participant's contract. SCE imposed penalties to BIP and OBMC programs only.

¹⁴ *Id.*

¹⁵ Response to Data Request #1, Question #5

SCE could have recorded more revenues from penalties in 2001 and 2002. However, the Commission ordered suspension of penalties and tolling events per D.01-01-056. Therefore, SCE returned collected penalties and waived penalties that were already billed.

IV. Summary of Audit Results

A. SCE's ILPMA interest for years 2001, 2002, and 2003 amounted to \$189,238. Audit adjustments reduced SCE's claimed interest by \$4,988. The adjusted interest that SCE should recover is \$184,250.

SCE included interest in their ILPMA incremental costs recovery requests filed in their AEAPs. Interest for 2001, amounting to \$21,059, was specifically included in SCE's recovery request per the 2002 AEAP. Interest for calendar years 2002 and 2003 was not reflected as part of the recovery requests filed in SCE's 2003 AEAP and 2004 AEAP. However, SCE described and supported how ILPMA interest was computed in the other sections of their AEAP filings. See Exhibit IV-1 below.

**Exhibit IV-1: SCE's 2001-2003 interest on ILPMA totaled \$189,238. Audit adjustments were \$4,988. The Commission should allow SCE to recover interest amounting to \$184,250.
(In Dollars)**

	2001	2002	2003	Total
SCE Interest (Note 1) – Associated with:				
2001 Program Costs	21,059 ¹	46,776	31,215	99,050
2002 Program Costs		27,546	46,515	74,061
2003 Program Costs			16,127	16,127
Total per SCE	21,059	74,322	93,857	189,238
Per Audit – Associated with:				
2001 Program Costs	18,757	46,782	31,217	96,756
2002 Program Costs		24,985	46,446	71,431
2003 Program Costs			16,063	16,063
Total per Audit	18,757	71,767	93,726	184,250
Audit Adjustments	(2,302)	(2,555)	(131)	(4,988)

Note 1: Derived from SCE's AEAP filings for 2002, 2003 and 2004.

¹Only the 2001 interest was clearly included by SCE in their total request.

Complete schedules showing the computation of ILPMA interest for 2001, 2002, and 2003 are shown in Appendix B.

B. SCE's incremental costs were mostly non-labor costs and incentive payments to ILMP participants for years 2001, 2002, and 2003.

SCE requested recovery of incremental costs recorded in their ILPMA. Total incremental costs for 2001, 2002, and 2003 (through May 2003) as filed were \$8,760,747. SCE's incremental costs included: (1) labor costs, (2) non-labor costs (e.g. new hardware, software or applications, air conditioner devices, printing of marketing material, postage and design, etc.), (3) circuit configurations, (4) incentive payments, reduced by revenues from penalties, and (5) interest. SCE kept their records of incremental costs by interruptible load management program. SCE maintained seven (7) ILMP as discussed in Section III of this report.

Audit results showed that SCE's incremental labor costs were 6.4% of the total incremental costs for years 2001-2003. Labor costs include those costs related to the performance of interruptible load management related incidental costs. Non-labor costs were 41% of the total incremental costs for the same years. In 2001, SCE non-labor costs amounted to 74% of SCE's 2001 incremental costs, while labor costs were 8% of the total 2001 incremental costs. Non-labor costs amounted to \$3,505,704 which consisted mainly of air conditioner cycling devices installed in participants' residences or offices, device maintenance and testing, programming subscriptions, hardware and software upgrades, and system maintenance and development. Refer to Exhibit IV-2 below, and Appendix-D.

Our audit revealed that SCE's non-labor incremental costs were reasonable and properly supported and documented.¹⁶

¹⁶ See Page 14, Section B

**Exhibit IV-2: SCE's total non-labor incremental costs for
years 2001-2003 (through May 2003) amounted to \$3,505,705
(In Dollars)**

	2001	2002	2003	Total
Total Non-Labor Costs:				
Agency Personnel	76,491	128,023	42,894	247,408
Administrative Expenses	2,707	3,682	1,407	7,796
Mandatory Mailings	88,107	0	0	88,107
Envoy Worldwide Subscription	102,000	82,100	6,188	190,288
Thomas Bros Map Subscription	27,349	41,133	40,299	108,781
T&D Field Service Work	0	0	2,311	2,311
Akami (IBM)	150,000	300,000	0	450,000
Performance Award	5,808	0	0	5,808
Customer Info. Data Extraction	29,751	0	0	29,751
Consultants	24,868	0	0	24,868
ACCP Devices	687,755	164,718	246,129	1,098,602
ACCP Device Installation	191,022	295,159	57,802	543,983
ACCP Device Testing	58,921	4,566	483	63,970
Training & Information Costs	16,670	13,410	57,349	87,429
System Maint. & Development	500,108	0	56,460	556,568
Sprint Teleconferencing	0	0	35	35
Total	1,961,557	1,032,791	511,357	3,505,705

Incentive payments made to ILMP participants via bill credits amounted to \$4,435,540 for the years 2001, 2002, and 2003 (through May 2003). Incentive payments consisted of 51% of SCE's total incremental costs from 2001 through May 2003. Appendix-D contains a detailed breakdown of these costs.

SCE had 3,792 ILMP participants enrolled in 2001; 7,828 participants in 2002; and 14,138 participants in 2003. Energy Division reviewed SCE's method of computing the incentive payments. Our audit did not identify any improper recognition of incentive payments. Payments to various participants in each ILMP were sampled and examined, and our verification showed proper recording, support, recognition, and computation of incentive payments. Contracts between SCE and ILMP participants were also reviewed and were determined to meet the requirements ordered by the Commission.

C. Audit findings determined during the course of audit showed minor audit adjustments totaling \$5,622. This amount reduced SCE's total recovery request for 2001, 2002, and 2003.

Capital investment on circuit reconfigurations relating to rotating outages amounted to \$390,522 at the end of 2001. SCE included \$93,245 incremental costs as recorded in the ILPMA. (Exhibit IV-3) This amount relates to the revenue requirement on capital investments made by SCE in 2001. SCE inadvertently overstated the revenue requirement in January 2002 by \$3,450. Consequently, the total SCE recovery request will be reduced by **\$3,450**, plus applicable interest. SCE will reflect this reduction in their ILPMA for \$3,450 plus applicable accrued interest. Adjusted capital investment incremental costs are \$89,795.

**Exhibit IV-3: SCE rotating outages – circuit reconfiguration: capital investment incremental costs amounted to \$89,795
(In Dollars)**

	2001	2002	2003	Total
Capital Related -Revenue Requirements ¹				
Book Depreciation		15,455	6,179	21,634
Property Tax Expense		1,368	1,211	2,579
Income Tax Expense		13,553	5,462	19,015
Return on Rate Base	(2,504) ²	35,158	13,913	46,567
Total	(2,504)	65,534	26,765	89,795

¹ Source: SCE Rotating Outage Capital – Revenue Requirement Computation for 2002 and 2003.

SCE's response to DR#ILPMA-ED-04 #1

² Result of a timing difference between (1) tax depreciation, and (2) book depreciation, associated with a capital addition in December 2001.

The minor items found during our audit refer to labor charges to Function 2830 in December 2002 OBMC detail totaling **\$1,623**, which were supposed to be reversed at the end of the year but were not. SCE was able to reverse most of the Function 2830 entries except for this one. Also determined during the audit were allocation problems regarding BIP (**\$198**) and ACCP-E (**\$351**) incremental costs incurred through May 22, 2003. These amounts were included in the adjustment items reducing the total recovery requests. Refer to Appendix D – Page 3 of 8 and Page 8 of 8.

SCE included \$5,808 of incremental costs in the memorandum account related to performance awards payments. These costs were incurred in the Demand Bidding Program (DBP) in November 2001. Performance awards are payments made to SCE major customer account representatives who exhibited superior performance in DBP enrollment goals. Our audit identified the payments to be incidental to ILMP and are valid expenditures relating to interruptible programs. We recommend allowing SCE to claim this expenditure.

Energy Division sampled and examined each ILMP activity. SCE provided a summary and detail of each program's incremental costs which was our basis in requesting supporting documents. Our audit sampled an average of 70% of the total amount requested by SCE. Except for minor items, we are satisfied with our examination of SCE's records and found the sampled months to be in proper order. SCE has a proper system of internal control in assuring that all transactions are recorded properly and accurately. SCE maintained proper authorizations in their accounts payable system. SCE's accounting system required several levels of review in determining that incremental costs were properly recognized and recorded.

V. Audit Methodology

A. The Audit Scope was consistent with the requirements of D.03-08-028

Our examination and review of SCE's ILPMA, accounting system, and records relating to incremental costs cover the period January 1, 2001 through May 22, 2003. SCE is requesting recovery of their incremental costs from January 1, 2001 through May 22, 2003 only. Incremental costs incurred after May 22, 2003 were included in SCE's 2003 GRC filing.¹⁷ Energy Division was ordered by the Commission per D.03-08-028 on August 21, 2003, to conduct a reasonableness review of incremental costs recorded in SCE's ILPMA for 2001. However, Energy Division extended the scope of the audit to Year 2003 as approved by the Commission's Executive Director to allow SCE recovery of incremental costs for 2001 through 2003.

The ILPMA Audit included: (1) reviewing Commission decisions and AEAP reports related to the Interruptible Load Management Program; (2) interviewing SCE's ILMP personnel; (3) reviewing SCE's accounting statements and records; (4) gathering information supporting recorded costs entries in ILPMA; (5) analyzing information for reasonableness; (6) applying audit programs and procedures including application of sampling methods, and (7) reporting the audit findings.

B. The audit program and procedures were designed to assess the reasonableness of program costs and revenues in the ILPMA

The objective of the Energy Division's examination of SCE's ILPMA is to assure the reasonableness of program costs and revenues recorded in the memorandum account.

Program costs are incremental costs incurred by SCE for years 2001 to 2003. SCE only requested recovery of costs through May 22, 2003. Costs after May 22, 2003 will be included in SCE's GRC filings.

Audit findings showed that incremental costs were reasonable, properly recorded, and documented. Incremental costs were reasonable when the expenditures made were proper for a particular program, and when the expenditures were necessary and important in order to operate and promote the Interruptible Load Management programs.

Utilities are required to maintain adequate accounting records and support, and proper documentation of incremental costs spent to operate and promote the programs. Utilities are required to have a sound accounting system to separate the incremental costs by programs. It will be very difficult to determine the reasonableness of any

¹⁷ Refer to Footnote #1

incremental costs without a sound accounting system, good recordkeeping, adequate support, and proper documentation. Our audit sampled as many months possible and applied a thorough review of the incremental costs and SCE records.

A complete audit program and procedures list is in Appendix E. Where applicable, audit procedures were applied in the audit of ILPMA.

C. The audit relied on judgmental sampling

SCE submitted incremental costs summaries for each month from January 2001 to May 2003. The Energy Division auditor requested detailed support for selected months by Interruptible Load Management Program. Judgmental sampling was used in choosing which months would be examined in detail. Transactions and supporting documentation in the sampled reports provided by SCE were thoroughly examined.

The percentage of the total amounts sampled compared to the total amounts requested for recovery in years 2001 to 2003 (through May 2003) was 69.57%. By program, the percentage of sampled months' incremental costs compared to total incremental costs for 2001 to 2003 (through May 2003) is as follows:

• Rotating Outages	73.05%
• Air Conditioner Cycling Program	83.42%
• Demand Bidding Program	52.44%
• Scheduled Load Reduction Program	41.84%
• Base Interruptible Program	52.12%
• Optional Binding Mandatory Curtailment Program	68.94%
• Voluntary Demand Response Program	75.88%

A detailed schedule showing how the percentages were derived is in Appendix C.

Appendix A

Acronyms:

ACCP-E	Air Conditioner Cycling Program – Enhanced
AEAP	Annual Earnings Assessment Proceeding
BIP	Base Interruptible Program
CARS	Corporate Accounting and Reporting System
CEC	California Energy Commission
CPUC	California Public Utilities Commission
DBP	Demand Bidding Program
GRC	General Rate Case
FSL	Firm Service Levels
ILMP	Interruptible Load Management Program
ILPMA	Interruptible Load Management Program Memorandum Account
ISO	California Independent System Operator
OBMC	Optional Binding Mandatory Curtailment
PBIP	Pilot Base Interruptible Program
PG&E	Pacific Gas & Electric Company
POBMC	Pilot Optional Binding Mandatory Curtailment
SCE	Southern California Edison Company
SDG&E	San Diego Gas & Electric Company
VDRP	Voluntary Demand Response Program

Appendix B

	Page
A. Interest Schedule for 2001	1
B. Interest Schedule for 2002	2
C. Interest Schedule for 2003	3

**SOUTHERN CALIFORNIA EDISON COMPANY
INTERESTS ON 2001 ILPMA EXPENDITURES**

Line No.		Jan-01	Feb-01	Mar-01	Apr-01	May-01	Jun-01	Jul-01	Aug-01	Sep-01	Oct-01	Nov-01	Dec-01	Total
1	BOM Balance	0	0	0	0	0	38,553	211,766	433,765	909,896	1,355,127	1,812,743	2,503,818	
2	Total Costs	0	0	0	0	38,482	172,804	221,013	474,124	442,008	453,911	686,978	181,274	2,670,594
3	Cumulative Ending Balance (L1+L2)	0	0	0	0	38,482	211,357	432,779	907,889	1,351,904	1,809,038	2,499,721	2,685,092	
4	Avg. Monthly Balance ((L1+L3)/2)	0	0	0	0	19,241	124,955	322,273	670,827	1,130,900	1,582,082	2,156,232	2,594,455	
5	Interest Rate	6.34%	5.49%	5.14%	4.78%	4.44%	3.93%	3.67%	3.59%	3.42%	2.81%	2.28%	1.97%	
6	Interest Expense ((L4*L5)/12)	0	0	0	0	71	409	986	2,007	3,223	3,705	4,097	4,259	18,757
7	EOM Balance (L1+L2+L6)	0	0	0	0	38,553	211,766	433,765	909,896	1,355,127	1,812,743	2,503,818	2,689,351	2,689,351

Line No.		Jan-02	Feb-02	Mar-02	Apr-02	May-02	Jun-02	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02	Total
1	BOM Balance	2,689,351	2,693,340	2,697,156	2,701,179	2,705,366	2,709,446	2,713,465	2,717,445	2,721,408	2,725,263	2,729,169	2,733,036	
2	Total Costs	0	0	0	0	0	0	0	0	0	0	0	0	0
3	Cumulative Ending Balance (L1+L2)	2,689,351	2,693,340	2,697,156	2,701,179	2,705,366	2,709,446	2,713,465	2,717,445	2,721,408	2,725,263	2,729,169	2,733,036	
4	Avg. Monthly Balance ((L1+L3)+L1)/2	2,689,351	2,693,340	2,697,156	2,701,179	2,705,366	2,709,446	2,713,465	2,717,445	2,721,408	2,725,263	2,729,169	2,733,036	
5	Interest Rate	1.78%	1.70%	1.79%	1.86%	1.81%	1.78%	1.76%	1.75%	1.70%	1.72%	1.70%	1.36%	
6	Interest Expense	3,989	3,816	4,023	4,187	4,081	4,019	3,980	3,963	3,855	3,906	3,866	3,097	46,782
7	EOM Balance	2,693,340	2,697,156	2,701,179	2,705,366	2,709,446	2,713,465	2,717,445	2,721,408	2,725,263	2,729,169	2,733,036	2,736,133	46,782

Line No.		Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03	Total
1	BOM Balance	2,736,133	2,739,120	2,741,996	2,744,875	2,747,597	2,750,345	2,753,072	2,755,390	2,757,709	2,760,099	2,762,491	2,764,908	
2	Total Costs	0	0	0	0	0	0	0	0	0	0	0	0	0
3	Cumulative Ending Balance (L1+L2)	2,736,133	2,739,120	2,741,996	2,744,875	2,747,597	2,750,345	2,753,072	2,755,390	2,757,709	2,760,099	2,762,491	2,764,908	
4	Avg. Monthly Balance ((L1+L3)+L1)/2	2,736,133	2,739,120	2,741,996	2,744,875	2,747,597	2,750,345	2,753,072	2,755,390	2,757,709	2,760,099	2,762,491	2,764,908	
5	Interest Rate	1.31%	1.26%	1.26%	1.19%	1.20%	1.19%	1.01%	1.01%	1.04%	1.04%	1.05%	1.06%	
6	Interest Expense	2,987	2,876	2,879	2,722	2,748	2,727	2,317	2,319	2,390	2,392	2,417	2,442	31,217
7	EOM Balance	2,739,120	2,741,996	2,744,875	2,747,597	2,750,345	2,753,072	2,755,390	2,757,709	2,760,099	2,762,491	2,764,908	2,767,350	31,217

**SOUTHERN CALIFORNIA EDISON COMPANY
INTERESTS ON 2002 ILPMA EXPENDITURES**

Line No.		Jan-02	Feb-02	Mar-02	Apr-02	May-02	Jun-02	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02	Total
1	BOM Balance	0	107,244	205,741	346,014	486,406	631,929	903,255	1,443,197	2,068,781	2,794,403	3,412,861	3,736,050	
2	Total Costs	107,165	98,275	139,862	139,747	144,680	270,189	538,222	623,025	722,180	614,013	318,128	330,489	4,045,975
3	Cumulative Ending Balance (L1+L2)	0	205,519	345,603	485,761	631,086	902,118	1,441,477	2,066,222	2,790,961	3,408,416	3,730,989	4,066,539	
4	Avg. Monthly Balance ((L1+L3)+L1)/2	53,583	156,382	275,672	415,888	558,746	767,023	1,172,366	1,754,709	2,429,871	3,101,410	3,571,925	3,901,294	
5	Interest Rate	1.78%	1.70%	1.79%	1.86%	1.81%	1.78%	1.76%	1.75%	1.70%	1.72%	1.70%	1.36%	
6	Interest Expense	79	222	411	645	843	1,138	1,719	2,559	3,442	4,445	5,060	4,421	24,985
7	EOM Balance	107,244	205,741	346,014	486,406	631,929	903,255	1,443,197	2,068,781	2,794,403	3,412,861	3,736,050	4,070,960	4,070,960

Line No.		Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03	Total
1	BOM Balance	4,070,960	4,075,404	4,079,683	4,083,967	4,088,017	4,092,105	4,096,163	4,099,611	4,103,061	4,106,617	4,110,176	4,113,773	
2	Total Costs	0	0	0	0	0	0	0	0	0	0	0	0	0
3	Cumulative Ending Balance (L1+L2)	4,070,960	4,075,404	4,079,683	4,083,967	4,088,017	4,092,105	4,096,163	4,099,611	4,103,061	4,106,617	4,110,176	4,113,773	
4	Avg. Monthly Balance ((L1+L3)+L1)/2	4,070,960	4,075,404	4,079,683	4,083,967	4,088,017	4,092,105	4,096,163	4,099,611	4,103,061	4,106,617	4,110,176	4,113,773	
5	Interest Rate	1.31%	1.26%	1.26%	1.19%	1.20%	1.19%	1.01%	1.01%	1.04%	1.04%	1.05%	1.06%	
6	Interest Expense	4,444	4,279	4,284	4,050	4,088	4,058	3,448	3,451	3,556	3,559	3,596	3,634	46,446
7	EOM Balance	4,075,404	4,079,683	4,083,967	4,088,017	4,092,105	4,096,163	4,099,611	4,103,061	4,106,617	4,110,176	4,113,773	4,117,407	46,446

**SOUTHERN CALIFORNIA EDISON COMPANY
INTERESTS ON 2003 ILPMA EXPENDITURES**

Line No.		Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03	Total
1	BOM Balance	0	236,255	759,637	1,115,126	1,463,238	1,858,329	1,860,172	1,861,737	1,863,304	1,864,919	1,866,536	1,868,169	
2	Total Costs	236,126	522,860	354,505	346,834	393,431	0	0	0	0	0	0	0	1,853,756
3	Cumulative Ending Balance (L1+L2)	236,126	759,115	1,114,142	1,461,960	1,856,669	1,858,329	1,860,172	1,861,737	1,863,304	1,864,919	1,866,536	1,868,169	
4	Avg. Monthly Balance ((L1+L3)+L1)/2	118,063	497,685	936,890	1,288,543	1,659,953	1,858,329	1,860,172	1,861,737	1,863,304	1,864,919	1,866,536	1,868,169	
5	Interest Rate	1.31%	1.26%	1.26%	1.19%	1.20%	1.19%	1.01%	1.01%	1.04%	1.04%	1.05%	1.06%	
6	Interest Expense	129	523	984	1,278	1,660	1,843	1,566	1,567	1,615	1,616	1,633	1,650	16,063
7	EOM Balance	236,255	759,637	1,115,126	1,463,238	1,858,329	1,860,172	1,861,737	1,863,304	1,864,919	1,866,536	1,868,169	1,869,819	1,869,819

APPENDIX - C

	Page
Sampling workpapers	
A. Year 2001 – 2003	1
B. Year 2001	2
C. Year 2002	3
D. Year 2003	4

SOUTHERN CALIFORNIA EDISON COMPANY
INTERRUPTIBLE LOAD MANAGEMENT PROGRAM MEMORANDUM ACCOUNT
PERCENTAGE OF SAMPLED DOCUMENTS VS. TOTAL EXPENSES
FOR THE YEARS 2001 - 2003

	January 2001-2003	February 2001-2003	March 2001-2003	April 2001 2003	May 2001 2003	June 2001-2003	July 2001 2003	August 2001-2003	September 2001-2003	October 2001-2003	November 2001-2003	December 2001-2003	Total Expenses	Total Sampled	Percent Sampled
Rotating Outages (RO)															
Total Expenses	40,234	45,624	94,297	58,350	61,107	121,029	171,933	102,298	52,048	64,631	376,915	197,309	1,385,775		
Sampled	0	0	64,051	58,350	32,104	88,107	141,885	43,626	0	36,171	350,708	197,309		1,012,311	73.05%
Air Conditioner Cycling Program - Enhanced (ACCP-E)															
Total Expenses	43,259	276,035	46,584	40,415	96,348	140,865	313,431	726,322	838,321	741,990	353,585	74,562	3,691,717		
Sampled	0	263,975	0	26,284	68,814	111,775	0	726,322	838,321	741,990	302,068	0		3,079,549	83.42%
Demand Bidding Program (DBP)															
Total Expenses	7,782	7,396	6,516	8,240	6,012	7,399	17,403	15,202	21,672	29,230	22,125	15,926	164,903		
Sampled	0	4,843	0	0	3,684	0	5,779	0	21,672	16,986	17,583	15,926		86,473	52.44%
Scheduled Load Reduction Program (SLRP)															
Total Expenses	5,299	4,645	5,030	5,514	8,158	2,709	8,664	12,373	18,421	13,441	6,574	8,561	99,389		
Sampled	0	2,221	0	2,645	1,712	(1,285)	0	0	18,421	9,311	0	8,561		41,586	41.84%
Base Interruptible Program (BIP)															
Total Expenses	225,198	266,152	318,943	350,443	356,881	131,683	210,817	201,174	203,835	201,996	232,385	199,026	2,898,533		
Sampled	0	223,505	244,088	0	277,734	124,929	4,605	201,174	0	11,214	224,476	199,026		1,510,751	52.12%
Optional Binding Mandatory Curtailment Program (OBMC)															
Total Expenses	11,046	10,265	11,826	12,287	27,272	21,106	18,762	31,628	22,803	10,991	8,008	10,880	196,874		
Sampled	0	0	4,077	8,395	19,341	21,106	18,762	26,075	22,803	0	4,289	10,880		135,728	68.94%
Voluntary Demand Response Program (VDRP)															
Total Expenses	0	0	0	0	11,348	21,104	17,223	2,587	1,541	114	0	0	53,917		
Sampled	0	0	0	0	0	21,104	17,223	2,587	0	0	0	0		40,914	75.88%
TOTAL															
Total Expenses	332,818	610,117	483,196	475,249	567,126	445,895	758,233	1,091,584	1,158,641	1,062,393	999,592	506,264	8,491,108		
Sampled	0	494,544	312,216	95,674	403,389	365,736	188,254	999,784	901,217	815,672	899,124	431,702		5,907,312	
PERCENT SAMPLED	0.00%	81.06%	64.61%	20.13%	71.13%	82.02%	24.83%	91.59%	77.78%	76.78%	89.95%	85.27%			69.57%
Capital:															
Rotating Outage	10,473	11,018	11,171	11,332	9,467	5,600	5,582	5,565	5,547	5,561	5,544	2,930	89,790		
Revenues: BIP						(8,502)	(4,580)						(13,082)		
	343,291	621,135	494,367	486,581	576,593	442,993	759,235	1,097,149	1,164,188	1,067,954	1,005,136	509,194	8,567,816		
													8,567,816		

SOUTHERN CALIFORNIA EDISON COMPANY
INTERRUPTIBLE LOAD MANAGEMENT PROGRAM MEMORANDUM ACCOUNT
PERCENTAGE OF SAMPLED DOCUMENTS VS. TOTAL EXPENSES
FOR THE YEAR 2001

	Jan-01	Feb-01	Mar-01	Apr-01	May-01	Jun-01	Jul-01	Aug-01	Sep-01	Oct-01	Nov-01	Dec-01	Total Expenses	Total Sampled	Percent Sampled	Total per Summary Report
Rotating Outages (RO)																
Total Expenses						88,107	141,885	58,672	22,599	28,460	350,708	125,374	815,805			815,805
Sampled						88,107	141,885				350,708	125,374		706,074	86.55%	
Air Conditioner Cycling Program - Enhanced (ACCP-E)																
Total Expenses					5,673	29,090	29,436	362,602	366,632	386,923	302,068	29,296	1,511,720			1,511,721
Sampled								362,602	366,632	386,923	302,068			1,418,225	93.82%	
Demand Bidding Program (DBP)																
Total Expenses							11,624	11,918	15,626	12,244	17,583	8,688	77,683			77,682
Sampled									15,626		17,583	8,688		41,897	53.93%	
Scheduled Load Reduction Program (SLRP)																
Total Expenses					3,605	3,994	3,507	6,500	12,079	9,311	4,421	4,262	47,679			47,680
Sampled									12,079	9,311		4,262		25,652	53.80%	
Base Interruptible Program (BIP)																
Total Expenses					4,047	6,754	4,605	5,770	6,359	11,214	7,909	8,830	55,488			55,489
Sampled							4,605	5,770		11,214		8,830		30,419	54.82%	
Optional Binding Mandatory Curtailment Program (OBMC)																
Total Expenses					13,809	23,755	12,733	26,075	17,172	5,645	4,289	4,824	108,302			108,302
Sampled					13,809	23,755	12,733	26,075	17,172		4,289	4,824		102,657	94.79%	
Voluntary Demand Response Program (VDRP)																
Total Expenses					11,348	21,104	17,223	2,587	1,541	114			53,917			53,917
Sampled						21,104	17,223	2,587						40,914	75.88%	
TOTAL																
Total Expenses					38,482	172,804	221,013	474,124	442,008	453,911	686,978	181,274	2,670,594			
Sampled					13,809	132,966	176,446	397,034	411,509	407,448	674,648	151,978		2,365,838		
PERCENT SAMPLED					35.88%	76.95%	79.84%	83.74%	93.10%	89.76%	98.21%	83.84%			88.59%	
Capital:																
Rotating Outage	0	0	0	0	0	0	0	0	0	30	30	(2,569)	(2,509)			
Revenues: BIP						0	0						0			
	0	0	0	0	38,482	172,804	221,013	474,124	442,008	453,941	687,008	178,705	2,668,085			
													2,668,085			

Per Table II-2 of SCE-2 Application No. 02-05-007 2,667,992
Difference 93

SOUTHERN CALIFORNIA EDISON COMPANY
INTERRUPTIBLE LOAD MANAGEMENT PROGRAM MEMORANDUM ACCOUNT
PERCENTAGE OF SAMPLED DOCUMENTS VS. TOTAL EXPENSES
FOR THE YEAR 2002

	Jan-02	Feb-02	Mar-02	Apr-02	May-02	Jun-02	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02	Total Expenses	Total Sampled	Percent Sampled
Rotating Outages (RO)															
Total Expenses	32,507	26,454	30,246	34,664	29,003	32,922	30,048	43,626	29,449	36,171	26,207	71,935	423,232		
Sampled				34,664				43,626		36,171		71,935		186,396	44.04%
Air Conditioner Cycling Program - Enhanced (ACCP-E)							(Note 3)								
Total Expenses	23,433	12,060	16,136	14,131	21,861	111,775	283,995	363,720	471,689	355,067	51,517	45,266	1,770,650		
Sampled						111,775		363,720	471,689	355,067				1,302,251	73.55%
Demand Bidding Program (DBP)															
Total Expenses	1,728	2,553	2,417	2,313	2,328	7,399	5,779	3,284	6,046	16,986	4,542	7,238	62,613		
Sampled							5,779		6,046	16,986		7,238		36,049	57.57%
Scheduled Load Reduction Program (SLRP)															
Total Expenses	2,608	2,424	3,008	2,869	2,841	(1,285)	5,157	5,873	6,342	4,130	2,153	4,299	40,419		
Sampled						(1,285)			6,342			4,299		9,356	23.15%
Base Interruptible Program (BIP)							(Note 3)								
Total Expenses	34,851	42,647	74,855	71,745	75,100	124,929	206,212	195,404	197,476	190,782	224,476	190,196	1,628,673		
Sampled						124,929		195,404			224,476	190,196		735,005	45.13%
Optional Binding Mandatory Curtailment Program (OBMC)															
Total Expenses	7,320	6,856	7,749	8,395	7,931	(2,649)	6,029	5,553	5,631	5,346	3,719	6,056	67,936		
Sampled				8,395		(2,649)	6,029		5,631			6,056		23,462	34.54%
Voluntary Demand Response Program (VDRP)															
Total Expenses		0	0	0	0	0	0	0	0	0	0	0	0		
Sampled		0	0	0	0	0	0	0	0	0	0	0		0	
TOTAL															
Total Expenses	102,447	92,994	134,411	134,117	139,064	273,091	537,220	617,460	716,633	608,482	312,614	324,990	3,993,523		
Sampled	0	0	0	43,059	0	232,770	11,808	602,750	489,708	408,224	224,476	279,724		2,292,519	
PERCENT SAMPLED	0.00%	0.00%	0.00%	32.11%	0.00%	85.24%	2.20%	97.62%	68.33%	67.09%	71.81%	86.07%			57.41%
Capital:	(Note 4)														
Rotating Outage (Note 1)	4,718	5,281	5,451	5,630	5,616	5,600	5,582	5,565	5,547	5,531	5,514	5,499	65,534		
Revenues from Penalties: BIP (Note 2)						(8,502)	(4,580)						(13,082)		
	107,165	98,275	139,862	139,747	144,680	270,189	538,222	623,025	722,180	614,013	318,128	330,489	4,045,975		
													4,045,975		

Note 1 - Source: ILPMA Interest computation, 2003 AEAP Filing - Table II-2

On a revenue requirement basis - includes book depreciation expense, return on rate base, and applicable taxes.

Note 2 - Source: ILPMA Interest computation, 2003 AEAP Filing - Table II

Note 3 - Mostly Incentive Payments to Participants

Note 4 - Original amount was \$8,168. Edison to adjust \$3,450 from incremental costs requests.

SOUTHERN CALIFORNIA EDISON COMPANY
INTERRUPTIBLE LOAD MANAGEMENT PROGRAM MEMORANDUM ACCOUNT
PERCENTAGE OF SAMPLED DOCUMENTS VS. TOTAL EXPENSES
FOR THE YEAR 2003

	Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03	Total Expenses	Total Sampled	Percent Sampled	
Rotating Outages (RO)																
Total Expenses	7,727	19,170	64,051	23,686	32,104								146,738			
Sampled			64,051	23,686	32,104									119,841	81.67%	
Air Conditioner Cycling Program - Enhanced (ACCP-E)																
Total Expenses	19,826	263,975	30,448	26,284	68,814								409,347			
Sampled		263,975		26,284	68,814									359,073	87.72%	
Demand Bidding Program (DBP)																
Total Expenses	6,054	4,843	4,099	5,927	3,684								24,607			
Sampled		4,843			3,684									8,527	34.65%	
Scheduled Load Reduction Program (SLRP)																
Total Expenses	2,691	2,221	2,022	2,645	1,712								11,291			
Sampled		2,221		2,645	1,712									6,578	58.26%	
Base Interruptible Program (BIP)																
Total Expenses	190,347	223,505	244,088	278,698	277,734								1,214,372			
Sampled		223,505	244,088		277,734									745,327	61.38%	1,214,570
																Error in May 2003 (198) proration
Optional Binding Mandatory Curtailment Program (OBMC)																
Total Expenses	3,726	3,409	4,077	3,892	5,532								20,636			
Sampled			4,077		5,532									9,609	46.56%	
Voluntary Demand Response Program (VDRP)																
Total Expenses	0	0	0	0	0								0			
Sampled	0	0	0	0	0									0		
TOTAL																
Total Expenses	230,371	517,123	348,785	341,132	389,580								1,826,991			
Sampled	0	494,544	312,216	52,615	389,580									1,248,955		
PERCENT SAMPLED	0.00%	95.63%	89.52%	15.42%	100.00%										68.36%	
Capital:																
Rotating Outage (Note 1)	5,755	5,737	5,720	5,702	3,851	0	0	0	0	0	0	0	26,765			
Revenues from Penalties						0	0						0			
	236,126	522,860	354,505	346,834	393,431	0	0	0	0	0	0	0	1,853,756			
													1,853,756			

Note 1 - Source: ILPMA Interest computation, 2004 AEAP Filing - Table II

On a revenue requirement basis - includes book depreciation expense, return on rate base, and applicable taxes.

APPENDIX - D

	Page
A. Total Incremental Costs	1
B. Non-Labor Incremental Costs	4
C. ILPMA Audit Adjustments	8

SOUTHERN CALIFORNIA EDISON COMPANY
INTERRUPTIBLE LOAD MANAGEMENT PROGRAM MEMORANDUM ACCOUNT
FOR YEARS 2001, 2002, AND 2003

	2001	2002	2003	TOTAL
Rotating Outages				
Labor	0	0	40,111	40,111
Non-Labor	814,514	423,233	106,628	1,344,375
Circuit Reconfiguration				
Capital Investment	(2,504)	68,984	26,765	93,245
Mandated Studies	1,289	0	0	1,289
Incentive Payments	0	0	0	0
Less: Revenues from Penalties	0	0	0	0
Total Request	813,299	492,217	173,504	1,479,020
Percent of Labor to Incentive Payments				0.00%
Percent of Labor to Total Request				2.71%
Percent of Non-Labor to Total Request				90.90%

	2001	2002	2003	TOTAL
Air Conditioner Cycling Program				
Labor	49,620	35,469	16,463	101,552
Non-Labor	997,773	558,697	393,512	1,949,982
Circuit Reconfiguration				
Capital Investment	0	0	0	0
Mandated Studies	0	0	0	0
Incentive Payments	464,328	1,176,485	(628)	1,640,185
Less: Revenues from Penalties	0	0	0	0
Total Request	1,511,721	1,770,651	409,347	3,691,719
Percent of Labor to Incentive Payments				6.19%
Percent of Labor to Total Request				2.75%
Percent of Non-Labor to Total Request				52.82%

	2001	2002	2003	TOTAL
Demand Bidding Program				
Labor	45,267	36,017	20,404	101,688
Non-Labor	32,415	26,595	4,204	63,214
Circuit Reconfiguration				
Capital Investment	0	0	0	0
Mandated Studies	0	0	0	0
Incentive Payments	0	0	0	0
Less: Revenues from Penalties	0	0	0	0
Total Request	77,682	62,612	24,608	164,902
Percent of Labor to Incentive Payments				0.00%
Percent of Labor to Total Request				61.67%
Percent of Non-Labor to Total Request				38.33%

	2001	2002	2003	TOTAL
Scheduled Load Reduction Programs				
Labor	31,942	16,851	7,967	56,760
Non-Labor	10,050	12,313	3,324	25,687
Circuit Reconfiguration				
Capital Investment	0	0	0	0
Mandated Studies	0	0	0	0
Incentive Payments	5,688	11,254	0	16,942
Less: Revenues from Penalties	0	0	0	0
Total Request	47,680	40,418	11,291	99,389
Percent of Labor to Incentive Payments				335.03%
Percent of Labor to Total Request				57.11%
Percent of Non-Labor to Total Request				25.84%

SOUTHERN CALIFORNIA EDISON COMPANY
INTERRUPTIBLE LOAD MANAGEMENT PROGRAM MEMORANDUM ACCOUNT
FOR YEARS 2001, 2002, AND 2003

	2001	2002	2003	TOTAL
Base Interruptible Program				
Labor	34,879	65,990	3,712	104,581
Non-Labor	4,210	10,042	3,584	17,836
Circuit Reconfiguration				
Capital Investment	0	0	0	0
Mandated Studies	0	0	0	0
Incentive Payments	16,400	1,552,641	1,207,274	2,776,315
Less: Revenues from Penalties	0	(13,100)	0	(13,100)
Total Request	55,489	1,615,573	1,214,570	2,885,632
Percent of Labor to Incentive Payments				3.77%
Percent of Labor to Total Request				3.62%
Percent of Non-Labor to Total Request				0.62%
	2001	2002	2003	TOTAL
Optional Bidding Mandatory Curtailment Program				
Labor	35,159	66,027	20,531	121,717
Non-Labor	73,143	1,910	105	75,158
Circuit Reconfiguration				
Capital Investment	0	0	0	0
Mandated Studies	0	0	0	0
Incentive Payments	0	0	0	0
Less: Revenues from Penalties	0	0	0	0
Total Request	108,302	67,937	20,636	196,875
Percent of Labor to Incentive Payments				0.00%
Percent of Labor to Total Request				61.82%
Percent of Non-Labor to Total Request				38.18%
	2001	2002	2003	TOTAL
Voluntary Demand Response Program				
Labor	22,370	0	0	22,370
Non-Labor	29,449	0	0	29,449
Circuit Reconfiguration				
Capital Investment	0	0	0	0
Mandated Studies	0	0	0	0
Incentive Payments	2,098	0	0	2,098
Less: Revenues from Penalties	0	0	0	0
Total Request	53,917	0	0	53,917
Percent of Labor to Incentive Payments				1066.25%
Percent of Labor to Total Request				41.49%
Percent of Non-Labor to Total Request				54.62%

SOUTHERN CALIFORNIA EDISON COMPANY
INTERRUPTIBLE LOAD MANAGEMENT PROGRAM MEMORANDUM ACCOUNT
FOR YEARS 2001, 2002, AND 2003

	2001	2002	2003	TOTAL
ILPMA Overall Requests				
Labor	219,237	220,354	109,188	548,779
Non-Labor	1,961,554	1,032,790	511,357	3,505,701
Circuit Reconfiguration	0	0	0	
Capital Investment	(2,504)	68,984	26,765	93,245
Mandated Studies	1,289	0	0	1,289
Incentive Payments	488,514	2,740,380	1,206,646	4,435,540
Less: Revenues from Penalties	0	(13,100)	0	(13,100)
Total Request before Interest	2,668,090	4,049,408 (a)	1,853,956 (a)	8,571,454
ILPMA Interests per Edison:				
2001 in 2001	21,059			21,059
2001 in 2002		46,776		46,776
2001 in 2003			31,215	31,215
2002 in 2002		27,546		27,546
2002 in 2003			46,515	46,515
2003 in 2003			16,127	16,127
	21,059	74,322	93,857	189,238
Total Request before adjustments	2,689,149 (a)	4,123,730	1,947,813	8,760,692
Audit Adjustments:				
OBMC - labor costs		(1,623) (b)		(1,623)
BIP - allocation problem			(198) (b)	(198)
ACCP-E - allocation problem			(351) (b)	(351)
Rotating Outage - Capital Investment Overstatement		(3,450)		(3,450)
Sub-Total	0	(5,073)	(549)	(5,622)
Interest: (See Appendix B)				
2001 in 2001: Per Recovery Request	21,059			
2001 in 2001: Per Audit	18,757	(2,302)		(2,302)
2001 in 2002: Per Recovery Request	46,776			
2001 in 2002: Per Audit	46,782	6		6
2001 in 2003: Per Recovery Request	31,215			
2001 in 2003: Per Audit	31,217		2	2
2002 in 2002: Per Recovery Request	27,546			
2002 in 2002: Per Audit	24,985	(2,561)		(2,561)
2002 in 2003: Per Recovery Request	46,515			
2002 in 2003: Per Audit	46,446		(69)	(69)
2003 in 2003: Per Recovery Request	16,127			
2003 in 2003: Per Audit	16,063		(64)	(64)
Total Interest per Recover Request	189,238			
Total Interest per Audit	184,250			
Total Interest Adjustment	(4,988)			
Total Interest Adjustments	(2,302)	(2,555)	(131)	(4,988)
Total Audit Adjustments	(2,302)	(7,628)	(680)	(10,610)
Adjusted Incremental Costs	2,686,847	4,116,102	1,947,133	8,750,082
Percent of Labor to Incentive Payments	44.88%	8.04%	9.05%	12.37%
Percent of Non-Labor to Incentive Payments	401.53%	37.69%	42.38%	79.04%
Percent of Labor to Total Incremental Costs	8.22%	5.44%	5.89%	6.40%
Percent of Non Labor to Total Incremental Costs	73.52%	25.50%	27.58%	40.90%
Percent of Incentive Payments to Total Incremental Costs	18.17%	66.45%	61.95%	50.63%

(a) Amounts SCE requested in their AEAP filings for 2002, 2003, & 2004.

(b) Refer to Appendix D

SOUTHERN CALIFORNIA EDISON COMPANY
 INTERRUPTIBLE LOAD MANAGEMENT PROGRAM MEMORANDUM ACCOUNT
 INCREMENTAL NON-LABOR COSTS
 FOR YEARS 2001, 2002, AND 2003 (THROUGH MAY 2003)

	2001	2002	2003	TOTAL
Total Non Labor Costs				
Rotating Outages:				
Agency Personnel	0	0	799	799
Admin Expenses	0	0	531	531
Mandatory Mailings	88,107	0	0	88,107
Envoy Worldwide Subscription	102,000	82,100	6,188	190,288
Thomas Bros Map Subscription	27,349	41,133	40,299	108,781
T&D Field Service Work	0	0	2,311	2,311
Akami	150,000	300,000	0	450,000
Performance Awards	0	0	0	0
Customer Information Data Extraction	0	0	0	0
Consultants	0	0	0	0
ACCP Devices	0	0	0	0
ACCP Device Installation	0	0	0	0
ACCP Device Testing	0	0	0	0
Training & Information Costs	0	0	4	4
System Maintenance & Development	447,059	0	56,460	503,519
Sprint Teleconferencing	0	0	35	35
Total Non-Labor Costs	814,515	423,233	106,627	1,344,375
Air Conditioner Cycling Program:				
Agency Personnel	33,492	83,337	31,740	148,569
Admin Expenses	0	0	13	13
Mandatory Mailings	0	0	0	0
Envoy Worldwide Subscription	0	0	0	0
Thomas Bros Map Subscription	0	0	0	0
T&D Field Service Work	0	0	0	0
Akami	0	0	0	0
Performance Awards	0	0	0	0
Customer Information Data Extraction	0	0	0	0
Consultants	0	0	0	0
ACCP Devices	687,755	164,718	246,129	1,098,602
ACCP Device Installation	191,022	295,159	57,802	543,983
ACCP Device Testing	58,921	4,566	483	63,970
Training & Information Costs	8,744	10,917	57,345	77,006
System Maintenance & Development	17,840	0	0	17,840
Sprint Teleconferencing	0	0	0	0
Total Non-Labor Costs	997,774	558,697	393,512	1,949,983

SOUTHERN CALIFORNIA EDISON COMPANY
 INTERRUPTIBLE LOAD MANAGEMENT PROGRAM MEMORANDUM ACCOUNT
 INCREMENTAL NON-LABOR COSTS
 FOR YEARS 2001, 2002, AND 2003 (THROUGH MAY 2003)

	2001	2002	2003	TOTAL
Total Non Labor Costs				
Demand Billing Program:				
Agency Personnel	22,768	23,168	3,917	49,853
Admin Expenses	669	2,665	287	3,621
Mandatory Mailings	0	0	0	0
Envoy Worldwide Subscription	0	0	0	0
Thomas Bros Map Subscription	0	0	0	0
T&D Field Service Work	0	0	0	0
Akami	0	0	0	0
Performance Awards	5,808	0	0	5,808
Customer Information Data Extraction	0	0	0	0
Consultants	0	0	0	0
ACCP Devices	0	0	0	0
ACCP Device Installation	0	0	0	0
ACCP Device Testing	0	0	0	0
Training & Information Costs	329	763	0	1,092
System Maintenance & Development	2,841	0	0	2,841
Sprint Teleconferencing	0	0	0	0
Total Non-Labor Costs	32,415	26,596	4,204	63,215
Schedule Load Reduction Program:				
Agency Personnel	8,466	11,751	2,988	23,205
Admin Expenses	0	0	336	336
Mandatory Mailings	0	0	0	0
Envoy Worldwide Subscription	0	0	0	0
Thomas Bros Map Subscription	0	0	0	0
T&D Field Service Work	0	0	0	0
Akami	0	0	0	0
Performance Awards	0	0	0	0
Customer Information Data Extraction	0	0	0	0
Consultants	0	0	0	0
ACCP Devices	0	0	0	0
ACCP Device Installation	0	0	0	0
ACCP Device Testing	0	0	0	0
Training & Information Costs	106	562	0	668
System Maintenance & Development	1,479	0	0	1,479
Sprint Teleconferencing	0	0	0	0
Total Non-Labor Costs	10,051	12,313	3,324	25,688

SOUTHERN CALIFORNIA EDISON COMPANY
 INTERRUPTIBLE LOAD MANAGEMENT PROGRAM MEMORANDUM ACCOUNT
 INCREMENTAL NON-LABOR COSTS
 FOR YEARS 2001, 2002, AND 2003 (THROUGH MAY 2003)

	2001	2002	2003	TOTAL
Total Non Labor Costs				
Base Interruptible Program:				
Agency Personnel	0	9,718	3,450	13,168
Admin Expenses	0	0	135	135
Mandatory Mailings	0	0	0	0
Envoy Worldwide Subscription	0	0	0	0
Thomas Bros Map Subscription	0	0	0	0
T&D Field Service Work	0	0	0	0
Akami	0	0	0	0
Performance Awards	0	0	0	0
Customer Information Data Extraction	0	0	0	0
Consultants	0	0	0	0
ACCP Devices	0	0	0	0
ACCP Device Installation	0	0	0	0
ACCP Device Testing	0	0	0	0
Training & Information Costs	2,711	324	0	3,035
System Maintenance & Development	1,499	0	0	1,499
Sprint Teleconferencing	0	0	0	0
Total Non-Labor Costs	4,210	10,042	3,585	17,837
Optional Binding Mandatory Curtailment:				
Agency Personnel	11,765	49	0	11,814
Admin Expenses	0	1,017	105	1,122
Mandatory Mailings	0	0	0	0
Envoy Worldwide Subscription	0	0	0	0
Thomas Bros Map Subscription	0	0	0	0
T&D Field Service Work	0	0	0	0
Akami	0	0	0	0
Performance Awards	0	0	0	0
Customer Information Data Extraction	29,751	0	0	29,751
Consultants	24,868	0	0	24,868
ACCP Devices	0	0	0	0
ACCP Device Installation	0	0	0	0
ACCP Device Testing	0	0	0	0
Training & Information Costs	2,603	844	0	3,447
System Maintenance & Development	4,156	0	0	4,156
Sprint Teleconferencing	0	0	0	0
Total Non-Labor Costs	73,143	1,910	105	75,158

SOUTHERN CALIFORNIA EDISON COMPANY
 INTERRUPTIBLE LOAD MANAGEMENT PROGRAM MEMORANDUM ACCOUNT
 INCREMENTAL NON-LABOR COSTS
 FOR YEARS 2001, 2002, AND 2003 (THROUGH MAY 2003)

	2001	2002	2003	TOTAL
Total Non Labor Costs				
Voluntary Demand Response Program:				
Agency Personnel	0	0	0	0
Admin Expenses	2,038	0	0	2,038
Mandatory Mailings	0	0	0	0
Envoy Worldwide Subscription	0	0	0	0
Thomas Bros Map Subscription	0	0	0	0
T&D Field Service Work	0	0	0	0
Akami	0	0	0	0
Performance Awards	0	0	0	0
Customer Information Data Extraction	0	0	0	0
Consultants	0	0	0	0
ACCP Devices	0	0	0	0
ACCP Device Installation	0	0	0	0
ACCP Device Testing	0	0	0	0
Training & Information Costs	2,177	0	0	2,177
System Maintenance & Development	25,234	0	0	25,234
Sprint Teleconferencing	0	0	0	0
Total Non-Labor Costs	29,449	0	0	29,449
Grand Total Non-Labor Costs:				
Agency Personnel	76,491	128,023	42,894	247,408
Admin Expenses	2,707	3,682	1,407	7,796
Mandatory Mailings	88,107	0	0	88,107
Envoy Worldwide Subscription	102,000	82,100	6,188	190,288
Thomas Bros Map Subscription	27,349	41,133	40,299	108,781
T&D Field Service Work	0	0	2,311	2,311
Akami	150,000	300,000	0	450,000
Performance Awards	5,808	0	0	5,808
Customer Information Data Extraction	29,751	0	0	29,751
Consultants	24,868	0	0	24,868
ACCP Devices	687,755	164,718	246,129	1,098,602
ACCP Device Installation	191,022	295,159	57,802	543,983
ACCP Device Testing	58,921	4,566	483	63,970
Training & Information Costs	16,670	13,410	57,349	87,429
System Maintenance & Development	500,108	0	56,460	556,568
Sprint Teleconferencing	0	0	35	35
Total Non-Labor Costs	1,961,557	1,032,791	511,357	3,505,705

SOUTHERN CALIFORNIA EDISON COMPANY
ILPMA AUDIT ADJUSTMENTS

	OBMC	BIP	ACCP-E	TOTAL
	Dec. 2002	June 2002	June 2002	
Incremental Labor - Adjustments (Note 1 & 4)	(240)	0	0	
	(158)	0		
	(359)	0		
	(192)			
	(108)			
	(132)			
	(99)			
	(120)			
	(215)			
	<u>(1,623)</u>	<u>0</u>	<u>0</u>	<u>(1,623)</u>
		May 2003	May 2003	
BIP - Agency Personnel (Note 3, 4 & 5)		(198)		(198)
ACCP Device Installation Adjustment (Note 2, 4 & 5)			(351)	(351)
Total				<u>(2,172)</u>

Note 1: Function #2830 and employees' labor included in Incremental SCE Labor and was never corrected.

Note 2: Error in proration. 21/31 of \$13,638 = \$9,239 not \$9,590 or a difference of \$351

Note 3: Error in proration. 21/31 of \$795 = \$539 not \$737 or a difference of \$198

Note 4: Negative amounts refer to reduction of incremental costs.

Note 5: Used SCE's proration ratio of 21/31.

Appendix – E

SCE – ILPMA Audit Program and Procedures

**SOUTHERN CALIFORNIA EDISON COMPANY
INTERRUPTIBLE LOAD MANAGEMENT PROGRAM MEMORANDUM
ACCOUNT
AUDIT PROGRAM FIELD WORK – ACCOUNTING**

Audit Objective

To assure reasonableness of program costs and revenues recorded in the Interruptible Load Management Program Memorandum Account (ILPMA). Program costs are incremental costs incurred by Southern California Edison Company (SCE), above the current rates authorized by the Commission, and reduced by revenues from penalties or other funds received.

Audit Procedures

1. Obtain documents and supports in order acquire understanding of Interruptible Load Management Program (ILMP) background and processes
 - A. Obtain and review relevant decisions, documents, and reports for 2001, 2002, and 2003 in support of accounting activities.
 - Commission Decisions related to ILPMA and its relevance to accounting of program costs and revenues
 - Annual Earnings Assessment Proceeding Report (AEAP) for 2002, 2003 & 2004 ILMP activities
 - ILMP plans, descriptions and budget information
 - Description of accounting and reporting system
 - Accounting procedures related to ILPMA costs and revenues
 - Flowcharts of Accounting process (e.g., Accounts Payable process, General Ledger record keeping) related to ILPMA
 - Organizational charts of the individuals involved with the ILMP including description of each responsibilities
 - Internal and external audit reports issued to SCE relating to Interruptible Load Management programs and operations
 - Sample of Accounting reports (e.g., CARS records, Memorandum Account reports, Accounts Payable Summary Reports, etc.)
 - ILPMA costs and revenues for 2001, 2002, and 2003, summarized by month and year
 - Summary reports for 2001, 2002, and 2003 showing ILMP costs & revenues by program
 - Preliminary Statements & Tariff rates
 - Sample of signed agreements between SCE and ILMP participants
 - Report showing all contracts signed by SCE and names of participants for 2001, 2002, and 2003.
2. Test and evaluate SCE's system of accounting and internal controls to ensure adequacy, effective compliance and timely recording of data

- A. Evaluate SCE's internal control relating to:
- Controls over information processing
 - Segregation of duties
 - Accurate and timely recording of transactions
- B. Determine if system of internal control was audited by SCE's internal and/or external auditors
- Obtain copies of audit reports relating to examination of internal controls
 - Obtain explanations to internal control issues raised by the auditors
 - Determine any corrective actions made to resolve internal control issues
 - Determine frequency of audit of financial records related to ILPMA and ILMP
- C. Obtain and review copies of policies relating to accounting of incentive payments or invoices
- D. Review flowchart of accounting systems involved in the process of payments, tracking of costs and recording of incentive payments or invoices
- E. Interview accounting personnel responsible for recording and payment of expenditures
- Determine if proper regulatory compliance were met and if accounting integrity of costs and revenue transactions recorded in the memorandum account were maintained
 - Evaluate separation of duties to prevent improper use of funds
- F. Interview program managers responsible for program administration and oversight of ILMP expenditures
- Review program controls, including incentive payment and invoice review, and approval processes, verification procedures, authorization and approval levels, and financial checks and balances
- G. Assure that the system of internal control is followed consistently from year to year
3. Review ILPMA entries to determine proper and complete recording of expenditures and revenues
- A. Determine memorandum accounts established
- Determine if memorandum accounts were established for each program. If not, determine how the programs were classified in the memorandum

accounts.

- B. Determine actual expenditures incurred during the year using CARS reports, and summary of invoices paid annually
 - C. Verify and review recorded entries for validity and accuracy
 - Explain any major adjustments made in the memorandum account and determine validity
 - D. Trace entries from sources (invoices, etc) to the memorandum account
 - Follow audit trails
 - Determine unusual and extraordinary entries
 - Determine if entries are supported and documented
4. Obtain evidence of transactions and verify all expenditure reports to determine if all payments were made properly and accurately
- A. Obtain documents in support of operational activities
 - Test accounting systems and controls for ILMP expenditures and identify weaknesses
 - B. Obtain reports and summaries of all ILMP expenditures for years 2001, 2002, and 2003
 - Determine how expenditures were summarized
 - Obtain expenditure reports from the SCE
5. Inspect invoices and determine if they were paid and recorded on a timely basis, accurately and properly.
- A. Apply sampling methods and select samples to review
 - Based on the population of paid incentives/invoices, apply sampling method to determine the size of samples to be reviewed
 - Depending on the size of the samples selected, either judgmental or unrestricted random sampling will be used as sampling technique.
 - Explain basis of sampling method used
 - Determine and support reasons for samples selected
 - Test samples for completeness, accuracy, and appropriateness
 - Describe and support results of sampling test
 - B. Obtain invoices based on the sampling method selected
 - Determine if invoices paid are for valid programs, properly identified as ordered by the Commission

- Determine if invoices paid and being tested showed proper approval and calculated accurately
 - Prove calculation – verify correctness of information for taxes and discounts, etc.
- C. Trace invoices to payment records
- Compare invoices with payments records and reconcile totals
- D. Trace payments to CARS accounting records
- Obtain CARS reports showing invoices paid and total amounts paid by month for 2001, 2002, and 2003
 - Determine if reports and summaries are prepared periodically
 - Determine if ILMP expenditures were reconciled with CARS accounting reports and summaries
- E. Investigate for any duplicate invoices and payments
- Verify invoice numbers, amounts paid, payee and description of work to ensure that no duplication of payments or charges was made.
6. Determine revenues received from penalties or from other funding
- Obtain documents to support reported revenues
 - Review computation for accuracy and completeness